

What's Credit Got to do With It?

Insurance companies in Michigan have been using various credit score formulas in their premium discount plans since 1997. During the last 13 years there has been much debate over the use of credit scores by insurers.

In May, 2003 then Insurance Commissioner, Linda Waters and Gov. Jennifer Granholm began pushing the Legislature for a ban on the use of credit scoring. Becoming impatient with the Legislature's failure to act, OFIS (Office of Financial and Insurance Regulation) drafted and adopted rules prohibiting the use of credit-based score as a rating factor after January 1, 2005.

Insurers went to court. The case went all the way to the Michigan Supreme Court who on July 8, 2010 ruled that the Granholm Administration exceeded its authority when it banned the use of credit scoring by insurance companies in the state of Michigan.

Why insurance companies use credit

To make fair and objective decisions and pricing more accurate, insurance companies need to have as much information as possible. Combined with familiar factors such as years of driving experience, previous losses, type of car or home, and where you live and drive, credit-based insurance scores allow insurance companies to differentiate between lower and higher insurance risks.

Credit history does not discriminate against any specific group of consumers. Information such as a person's age, income, ethnic group, religion, gender, or marital status is not factored into credit-based insurance scores.

Research has shown that consumers with better insurance scores generally have fewer losses and file less expensive claims. People who use credit wisely are generally responsible in other areas of their lives.

How the use of credit benefits consumers

Credit based insurance scores in Michigan benefit the consumer for the same reasons the insurance companies use them. The state law in Michigan prohibits insurance companies from refusing to insure an individual based on their credit information.

Insurance companies can only provide a discount for maintaining good credit; therefore, the responsible consumer is rewarded on their home and auto insurance. In fact, more than two-thirds of Michigan policyholders do have lower rates because of good credit.

The use of credit information promotes competition. This benefits consumers, who can shop around for the best price, service and coverage.

FAQs about credit:

- **What is an insurance score?**

Insurance scores are different from credit scores or reports. Insurance companies develop insurance scores from credit history contained in credit bureau reports and use the information when making rating decisions. An insurance score provides a numeric assessment of an individual's credit risk. It reflects credit payment patterns, outstanding debt, length of credit history, types of credit and number of new applications for credit. Insurance companies consider only those items from credit reports that are relevant to insurance loss potential. Unlike a lender, an insurance company is not assessing a customer's income and debt; they are evaluating how customers manage their assets and credit granted to them.

- **How is my privacy protected?**

Most insurance companies only see the score, not the information that went into developing it. All companies must follow the Fair Credit Reporting Act and state laws that apply to the use of credit information to ensure there is confidentiality, accuracy and a legitimate need for the information.

- **Can I improve my score?**

Consumers can improve their insurance scores over time by using credit responsibly. Make sure you pay bills on time, keep balances low and apply for and open new credit accounts only as needed.

- **How to get your credit report**

Credit reports are generally very accurate; however, mistakes do happen. If a consumer discovers an error on their report, all they need to do is contact the reporting agency to have it corrected. To make sure that your credit report is accurate, review it from each bureau at least once a year. Credit reports are available free once a year by visiting, www.annualcreditreport.com or calling 1-877-322-8228. The three credit bureaus are:

Equifax (800) 685-1111

Trans Union (800) 888-1213

Experian (888) 397-3742

If after reading this article you have still have questions on your insurance score, contact your insurance agent.